

## **MSHDA QAP Public Hearing Comments:**

Mark Wiedelman; St. James Capital

My Name is Mark Wiedelman. I am President and Managing Member of St. James Capital LLC, a Michigan based HUD MultiFamily Lender. St. James was formed approximately seven years ago with a business plan of providing HUD insured MF loans in Michigan with a significant focus on affordable housing. My associates and I come from an affordable housing background. I have personally been involved with the LIHTC program since 1990. Since its' formation St. James has completed over \$350 Million of financings with over \$250 million being affordable housing, almost all of which has been in Michigan.

Thank-you for the opportunity to speak. I stand here today wearing several hats.

"Hat One" is as a parent and advocate of persons with Developmental Disabilities. I have a son who is DD, and given my occupation, I have a keen interest in special needs housing. I currently and previously have served as an active Board Director of several small to very large nonprofits that provide both social services and housing to a variety of special needs populations (including DD, MI, Homeless, etc.). My heart and passion is with this type of housing. I have done Section 202's, 811's, tax exempt bond deals, 9% and 4% credit deals, senior deals, etc.

So, I admire and respect MSHDA's efforts to increase the quantity of this housing product. MSHDA, since I started working with them many years ago, has had as a goal to increase the capacity, both financial and production, of non-profit housing groups. This is a good goal.

"Hat Two" is as a business person, as a financier of affordable rental housing in this State, using multiple sources with an emphasis on the HUD Mortgage Insurance programs. St. James completed some of the first transactions in Michigan that combined tax credits (both 4 and 9%) with the HUD lending programs. These types of deals have become a significant part of both my business and livelihood, as well as for all our employees.

Last, I wear "Hat Three". I am nearly a lifetime Michigander – very concerned about where this State is and where we are going. I opened a business in this State, have

employees who rely on that business, and want to see Michigan, MSHDA, and our clients succeed. If that happens, SJC will succeed.

The proposed QAP is in four words: "Too Much – Too Fast". It goes from A to Z without any stops. Relating to my various hats:

**My Business Hat:** I am a numbers guy. One thing I believe I truly do understand about real estate and housing is the numbers. I understand loan underwriting, financial projections, etc. You can say whatever you want about this business, but when all is said – the numbers have to work. The sources of funds have to equal the uses. The Rents and Expenses have to produce a Net Operating Income that is adequate to pay the debt service. I also have a good feel for what the LIHTC investors are looking for.

I have personally crunched numbers on numerous supported housing deals, almost always with the same conclusion and question:

- a. Where does the consistent long term funding come from to pay for the required supportive services, especially when the social service agencies providing such services are already struggling to maintain existing services with declining budgets; and
- b. The development sources and uses just don't work. The required uses of funds simply cannot be matched with traditional sources of debt and equity. They typically require significant additional funding – grants, no-interest loans, etc. Where are these funds going to come from?

The bottom line here – this proposed QAP throws too much to this development community and type of project too fast. No disrespect to the Non-profits and CDC's and supportive service providers, but they are not ready for this volume. We need to develop the models – the source of funding for both the services and real estate, before we can structure these deals. The debt and equity will simply not be available for the communities outlined in this QAP.

**Last, My State of Michigan Hat:** If this radically changed QAP is implemented, I will undoubtedly be forced to radically change my company's business plan, because a significant portion of our business, that being the preservation acquisition/rehab deal, will no longer work under the new program. In fact, the proposed QAP has no set aside for preservation transactions. Yes, I will try to expand our work with the targeted new

developers, but realistically, to maintain my volume of business and keep my employees employed, I will undoubtedly have to go out of state. I don't want too – but see no option. And, I am not alone. I have talked at length to many of my Developer clients who have carefully reviewed this proposed QAP – and unfortunately, they have already nearly thrown in the towel. They feel that maybe, they might pick up a deal now and then. ~~But to continue to operate their businesses and keep their employees employed,~~ they will need to seek deals and focus out of state. We, as a business and as a State, do not want our QAP to push our most successful and sophisticated affordable housing providers and financing sources out of our State. I believe that over a period of time, we can phase in a plan that can keep our successful players here and at the same time, develop the capacity of the Non-profit community.

My Parent and Advocate Hat:

I want more appropriate, quality, financially and physically sound special needs housing. I want my Son to live in one. But I want it done right. I do not want the forced creation and development of deals that will not stand the test of time, which is, I believe, what the proposed QAP will do. This will only hurt the effort. We need to do this right. Rushing – Too much : Too Fast is not the answer.

Last,

a. Not only do the conceptual aspects of the proposed plan make the underwriting of feasible debt and equity difficult, if not impossible – there are some specific aspects of the plan that are particularly problematic:

- i. Lending on LIHTC deals is a balancing act between the Lender and the LIHTC investor as to how and when dollars flow into the deals. Paragraph VII(A)2 requirements regarding the issuance of a Form 8609, the issuance of which is many times the trigger for a significant equity payment, will cause major headaches for both LIHTC investors and Lenders. I frankly am uncertain as to how we would deal with this as a Lender.

ii. The requirement of three LIHTC investor bids for each application – this will be a disaster in and of itself, and frankly is probably meaningless. Deal structures evolve as a deal is structured, and the deal is seldom fully structured at the time of initial application. The evaluation process of the different investor bids alone will present an overwhelming challenge to the MSHDA Tax Credit staff. There is no practical way they can properly evaluate different bids without carefully legally analyzing a full Partnership Agreement. So why require?

- b. Yesterday, I talked to a very experienced Developer – they have a property that just might fit into one of the niches of the proposed new plan, with the exception of the supportive housing requirement, and they are concerned about their ability to put together a proper application by December 27. Many of the important aspects of the Plan, such as the scoring, have not yet been published. What about the targeted users of this QAP? How are they possibly going to be ready with an application by 12/27? The December 27 proposed round under this proposed plan is not realistic – simply said.

I urge the MSHDA Staff and the MSHDA Board to delay the implementation of this plan so that we can develop a program that meets the needs of Michigan's most needy citizens and is a catalyst to our stagnant economy. I am convinced that we can do it. In the interim, let's put our allocation of tax credits to work and have a round yet this year under the current plan. Too much – Too Fast is not the way to go.

Thank-you.